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C O N F I D E N T I A L LJUBLJANA 001119

SIPDIS

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TREASURY FOR VIMAL ATUKORALA  
COMMERCE FOR ITA/SAVICH

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SUBJECT: COM CALL ON NEW SLOVENE FINANCE MINISTER, ANDREJ  
BAJUK

REF: LJUBLJANA 1047

Classified By: Ambassador Thomas B. Robertson Reasons 1.4 (b) and (d)

1. (SBU) Summary. Ambassador paid a courtesy call on newly confirmed Finance Minister, Andrej Bajuk, on December 13. Accompanying the Ambassador were DCM and Pol/Econ chief. Bajuk, interestingly, held the meeting with no staff present. Throughout the discussion, Bajuk stressed the need for the new government to move quickly and to have some early, up front, success stories on privatization, tax reform and new investment. He also underscored the need for support and assistance from the USG and multilateral banks in order to be able to achieve these early successes. Bajuk made a strong pitch that Slovenia not be forced to graduate from EBRD and other multilateral bank programs prematurely. Though Slovenia has made a good case for itself as a stable and prosperous country, many of the difficult privatizations have been long delayed and will be difficult to manage properly without international support. End Summary.

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PRIVATIZATION - NEED EARLY SUCCESS  
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2. (C) Relative to an earlier meeting on November 12 (reftel), Bajuk seemed more relaxed and focused on what he needed to and could do in the short-term. On the privatization front, he wants to work on the banking sector first and has his sights set on Nova Kreditna Banka Maribor (NKBM). He is convinced that once average Slovenes understand how banks are supposed to work - catering to the small and medium sized customer as well as the corporate behemoths - they will be less concerned about who owns them. Keeping in mind it will be difficult to overcome the Slovene aversion to foreign investors, Bajuk thinks getting the EBRD on board as an investor will provide a good transition to full privatization. Bajuk fully expects strong opposition to his plans, and he seems prepared to debate the issue publicly. Should the decision come to a referendum, something that can happen if 30 parliamentary deputies want one or if enough voter signatures are gathered, Bajuk is certain he will prevail.

3. (C) Bajuk would also like to back the government out of the private sector through diversification and privatization of the government run pension fund known by its acronym KAD. KAD is government managed, 100% invested in Slovene stocks, and by far the biggest player in the Ljubljana Stock Exchange. Though the plan did not seem fully crystallized, and we had not heard about this in earlier meetings or in the press, Bajuk has a plan to privatize the fund. His idea is to convert to private management and diversified investments in 10% annual increments.

4. (C) The first weeks in office seem to have been full of revelations for Bajuk, one important one being the extreme difficulty he will have privatizing Telekom Slovenije. Bajuk was clear that he was not abandoning this goal (an issue on which he ran during the campaign), but that he would push it down the road a little in order to better concentrate on having success with the banks. He knows it will be difficult and wants to be sure privatization succeeds.

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INVESTMENT  
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5. (SBU) In addition to success in privatization, Bajuk stressed the need to have success with a foreign investor. He lamented that there was no "greenfield" investment in Slovenia and this must be addressed. He looked to the Ambassador for ideas. The Ambassador suggested a trade mission to the US which would include key government officials as well as members of the Slovene business community. Again, the Ambassador underscored the need for Slovenia to develop a strong, positive message about business opportunities and to bring itself to the attention of potential investors in the U.S. and elsewhere.

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TAX LAW REFORM  
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16. (SBU) Bajuk hopes an early political victory will be a change to the draft capital gains tax law submitted by the previous administration and currently under parliamentary consideration. If he can get his changes accepted, he will demonstrate to the management of large Slovene companies that he is not out to get them and can keep campaign promises. Some have cried foul that his plan only benefits the wealthy, but Bajuk sees this as an "entrepreneur friendly" measure. Bajuk's plan, as explained to the Ambassador, would effectively reduce the short-term capital gains rate to 30% and the long term rate to 20% for the large shareholder. The vote is to be taken on Thursday, December 16. Post will report separately on those results.

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NATO OBLIGATION - HARD TO MEET  
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17. (C) The transition has also given Bajuk a chance to look at the books for the first time, and he expressed concern about Slovenia's ability to meet the 2% of GDP military budget commitment by 2008. While not saying outright that he would be unable to meet the obligation, he did suggest that he would need to be able to show some sort of tangible benefit to the Slovene people, and suggested that "dual use" investments could be considered, without giving examples. The Ambassador reminded Bajuk of the commitment made by the previous government and reiterated by current Prime Minister Jansa, to which Bajuk responded that it would also be important to ensure that all the money was really being spent on military necessities - suggesting this may not have been the case previously.

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COMMENT  
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18. (C) It is clear that Bajuk is gaining command of his brief. He has more focus - if not vision - about where he needs to concentrate his efforts and political clout. There seems to be a recognition emerging from the government and private sector that Slovenia's days of "gradual transition" are over and the painful work of moving the government out of the economy must begin in earnest. Bajuk also has a large, unwieldy ministry to contend with. It is spread out across the city in eight different locations, and staffed by entrenched bureaucrats and LDS appointees who may not be as enthused about change as he is. He will have to work hard to find trustworthy aides and to also gain the trust and support of his ministry in order to ensure success in his endeavors.  
ROBERTSON

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